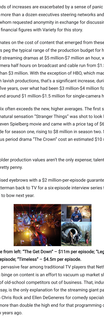

# TV Series Budgets Hit the Breaking Point as Costs Skyrocket in Peak TV Era

Tim McDonagh for Variety

As finance chief of Netflix, David Wells can occasionally be counted on to sound a note of fiscal discipline at a company where CEO Reed Hastings is unafraid to bet big. But even as he preaches managing the margins at a Goldman Sachs investor conference earlier this month, Wells echoes his boss's bullish projection for what Netflix could be spending on an episode five years from now.

"Is $20 million-an-hour television possible? Certainly," Wells says. "If you have the numbers of people watching it, we certainly can support that level of quality in terms of TV."

There was a time not too long ago when the suggestion of forking over that much money for 60 minutes of scripted content might have gotten Wells laughed out of the room. But now $20 million seems the logical extension of where Netflix and its many competitors are headed; HBO isn't that far away with its budget-busting hit "Game of Thrones," which will see the price of its final episodes run $15 million apiece.

Paul Mescal, Quentin Tarantino and Rita Moreno to Be Honored at Academy Museum Gala

Dealmakers NYC Power Players 'Idol' Drama ABC Braces for Fall Frenzy Amazon Studios Why Theaters Matter
SEPT Nº4
VARIETY
CHASING THE DRAGON
As the TV arms race heats up, networks are burning cash to meet the soaring per-episode costs of series like 'Game of Thrones'
By Maureen Ryan and Cynthia Littleton p.36

At a moment when the television industry is grappling with a massive increase in the number of shows being produced, the ripple effects of Peak TV are surfacing in virtually every line item in a typical TV series budget.

Fueled by the rise of streaming heavyweights that don't play by the same financial rules as traditional TV players, costs are soaring for everything from location scouting to renting equipment to securing post-production facilities. A wide range of services takes longer to secure and costs more even when it's in hand — particularly transportation-related expenses.

These kinds of increases are exacerbated by a sense of panic that has set in for more than a dozen executives steering networks and studios, many of whom requested anonymity in exchange for discussing sensitive financial figures with Variety for this story.

The estimates on the cost of content that emerged from these interviews peg the typical range of the production budget for high-end cable and streaming dramas at $5 million-$7 million an hour, while single-camera half hours on broadcast and cable run from $1.5 million to more than $3 million. With the exception of HBO, which made its mark with lavish productions, that's a significant increase, during just the past five years, over what had been $3 million-$4 million for cable dramas and around $1 million-$1.5 million for single-camera half hours.

And Netflix often exceeds the new, higher averages. The first season of its supernatural sensation "Stranger Things" was shot to look like a 1980s Steven Spielberg movie and came with a price tag of $6 million an episode for season one, rising to $8 million in season two. Netflix's sumptuous period drama "The Crown" cost an estimated $10 million an episode.

Bigger, bolder production values aren't the only expense; talent also costs a pretty penny.

Netflix raised eyebrows with a $2 million-per-episode guarantee to lure David Letterman back to TV for a six-episode interview series that's expected to bow next year.

**Clockwise from left: "The Get Down" – $11m per episode; "Legion" – $4m per episode; "Timeless" – $4.5m per episode.**

There's a pervasive fear among traditional TV players that Netflix's spending binge on content is an effort to vacuum up market share and put a lot of old-school competitors out of business. That, industry veterans say, is the only explanation for the streaming giant paying $20 million to Chris Rock and Ellen DeGeneres for comedy specials — fees that are more than double the high end for that programming on HBO just a few years ago.

But Netflix is far from alone in its aggressive spending. All the streaming services are ponying up bigger upfront commitments and budgets, raising floor prices for all networks. Amazon is laying out $8 million on action drama "Jack Ryan" and $5 million per half hour for "The Tick," the superhero comedy with lots of visual-effects shots that also films largely on location in pricey New York. Robert De Niro is getting approximately $775,000 an episode to star in a David O. Russell crime drama for Amazon.

It's not just the cost of scripted TV that's blowing up. Apple is paying $2 million an episode for the CBS-produced "Carpool Karaoke" series, even for episodes that run far less than 30 minutes.

Cable networks are stretching their wallets too. HBO's VFX-heavy "Westworld" is in the same lofty budgetary stratum as "The Crown." Season one of Starz's "American Gods" came in at more than $8 million per episode. TNT's one-and-done period drama "Will" required $5 million-$6 million an episode, even though it was shot in Wales with mostly up-and-coming actors.

FX usually spends about $3.5 million-$4 million per hour on its dramas. Ryan Murphy's "American Crime Story" franchise is closer to $6 million.

For broadcast networks, the high end is roughly $4.5 million (with most shows coming in about $1 million below that). ABC, CBS, NBC and Fox are still struggling to adjust to an environment in which they're not the first stop (or even the second) for hot new projects. Past seasons would typically feature one or two big bets on expensive broadcast pilots (think "Smash," "Last Resort," "Terra Nova"); the crop that's coming to this year's fall schedule is more modestly budgeted. That's a cautionary sign of the cost-consciousness seeping into broadcasters as monetization of content becomes harder amid the steady erosion of live TV ratings and advertising revenue.

And then there's "Game of Thrones," the reigning king of big-budget dramas. The $15 million-plus price tag is due in part to a shooting schedule that more resembles that of a feature film than an episodic series. But "Thrones" is an anomaly. When it debuted, its price tag was in line with what HBO typically spends on dramas, around $6 million or so. But as the program grew into a four-continent behemoth with multiple production units shooting at once, it also began to generate dozens of healthy revenue streams for HBO. Its merchandising lines and foreign sales have brought plenty of gold to the network, and it's been an effective branding flagship as the premium cable channel transitions into the nonlinear age with HBO Now. (Related column: Taking the Wrong Lessons from the Success of "Game of Thrones")

Within the creative community, there's been a great deal of talk about the current boom in series production fueling a financial windfall for in-demand talent and sparking a vast expansion of the storytelling palette. But worries of an overheated market that's heading for a crash are palpable. (Related column: Will Out-of-Control Episode Costs Kill Peak TV?)

"It's an arms race, and it's going to be that way until somebody realizes they're just beating their head against the wall and not getting anywhere," says Michael Pachter, a research analyst for Wedbush Securities who covers Netflix.

Cindy Holland, vice president of original content for Netflix, acknowledges that more ambitious, longer and VFX-heavy shows can drive cost increases. But she sees those kinds of series coexisting with more modest efforts that shouldn't be overlooked.

"The analogy I think about is the move from mass-produced beer to artisanal breweries or small-batch liquor," Holland notes. "Every project is different now; they're not fitting into the cookie cutter. HBO has been doing that for a long time. But we now have a bunch more players doing it."

Nevertheless, industry veterans complain that some shows are produced at a pointlessly overinflated price throughout the lensing and post-production process.

"I look at a show like '13 Reasons Why,'" said Susanne Daniels, global head of content for YouTube, at a Variety summit earlier this month. "On Netflix, [it costs] $5 million an episode. I made shows like that for years at the WB [Network] for $2 million an episode. It's 'interior high school,' 'interior home.' There's no rhyme or reason to what they're paying."

That said, there are some fundamental economic changes in the dynamics of the TV industry that do go some way toward explaining the sticker shock: VOD platforms are extending the shelf life of shows, which means that budget expenditures can be amortized over a longer period than the initial run, helping networks absorb higher costs. Nevertheless, there's considerable anxiety among network and studio execs over not just the steady growth in production costs but key shifts in the long-term profit models for series TV. One executive sighs when recalling how he was told he would have to agree to a monster budget to even book a pitch meeting (he passed). Also adding to the agita in the executive suite: the frenzied competition for high-wattage new packages that are trotted out with regularity by savvy producers and talent agencies.

"It seems like every other day it's 'Cancel all your meetings — we have to get this,' " says another studio veteran. "The agencies are good at trying to get everyone all hot and bothered."

*"It's an arms race, and it's going to be that way until somebody realizes they're just beating their head against the wall and not getting anywhere."* **Michael Pachter, Wedbush Securities**

There's also a greater focus among talent to secure bigger fees up front in their negotiations with networks and streaming services: It's hard to bank on the value of profit-participation points down the road when the streaming giants are increasingly focused on holding global distribution rights over 10- and 20-year periods.

That same business model is another reason why budgets at Netflix and Amazon have gone sky high. Most outside studios receive a predetermined percentage of a show's license fee as a profit margin, to compensate for the lack of international and domestic syndication licensing. The bigger the production budget, the bigger the license fee — hence the bigger the studio's margin.

In this scenario, studios have every incentive to push for the biggest budgets, unlike the traditional model in which the network license fee for new shows typically doesn't cover the entire cost of production. Under the old model, when studios absorb deficits at the outset, there's every incentive to keep budgets tight in order to minimize the red ink that has to be made up through international sales and domestic syndication.

Another reason production costs are rising: a lack of experience on the part of showrunners and crews in making the most of every hour of production time. Industry insiders privately speculate that the strain on the talent pool of line producers and technical, craft and stunt crew members has been a factor in what seems to be a jump in the number of on-set accidents in recent months.

Simply put, it's impossible to have seasoned people at the helm of every show when the volume of scripted series production spiked 71% between 2011 and 2016 — or from 266 series in 2011 to 455 in 2016, according to FX Networks Research. The 2017 tally is projected to top 500.

The inflationary effect of this growth bleeds into virtually every aspect of production. The below-the-line increases can be eye-popping. Yet the biggest driver of costs remains the seller's market for creative talent. Jeff Wachtel, chief content officer for NBCUniversal Cable Entertainment, likens the current employment dynamic to that of athletes when sports leagues decide to add teams.

"Peak TV has created an expansion-league environment," Wachtel says. "Actors and writers and directors who used to compete for jobs are now having studios compete over them."

Industry sources say writers and producers who might have been making less than $20,000 an episode a few years ago are now able to command loftier job titles and fees closer to $40,000-$50,000 or more.

Wachtel emphasizes that the investment in original series production can pay off handsomely with global sales and streaming licensing deals. But the climbing cost of production and even development makes the losses greater when projects fizzle.

"You have to be willing to take on more risk — not just in production but during development," Wachtel says. "That's part of the expansion-league mentality. There's more competition earlier on in the process."

The influx of film-trained directors in the episodic TV world has surely had an impact on expectations and shooting schedules. There's a different mind-set when film producers come into the television industry, says one experienced executive. "We used to say, in TV, if you go $10,000 or $20,000 over budget, you get noticed. On the film side, you've got to go $10 million [over] to get noticed."

FX CEO John Landgraf sees a brighter side to the crossover of talent from big screen to small. "Television has evolved from being more of a writers' medium to being a filmmakers' medium as well," he tells Variety. "Frankly, what passes for great television today is just much more visually ambitious and expensive to make than it was even a short time ago."

TV's filmmaker invasion might partly explain the increase in location shoots in television production. But the cost of moving actors, crews and equipment from point A to point B on location has skyrocketed. The number of series regulars on many shows has grown, creating a need for more cars and more trailers. And Hollywood productions use union drivers, meaning that overtime is incurred when the workday runs long.

In heavily trafficked shooting locations like Vancouver or Atlanta or New York, there's so much production going on at any given time that shows have to travel farther afield to find desirable spots. And the locals have gotten more sophisticated about asking for high fees for the use of home exteriors and driveways and such when location managers come knocking on the door.

**Clockwise from top: "Insecure" – $3.5m per episode; "The People v. O.J. Simpson" – $6.5m per episode; "Kevin (Probably) Saves the World" – $3m per episode.**

Now that TV dramas routinely deliver cinematic visuals, the volume of equipment needed for a typical location shoot has grown considerably. A decade ago, the gear to produce a network TV drama would typically fit into one good-sized semitrailer. Today, it's not unusual to have three trucks full of equipment on location. And those trucks often have to find a place outside the location to park because cities won't issue street-parking permits for that many big vehicles.

Producers will defend the added expense as the cost of doing business to create the kind of high-quality entertainment that stands out amid a cluttered marketplace. But even for buzzy or well-regarded shows, industry insiders simply can't wrap their heads around some of the numbers they're hearing.

"There's a fair amount of money that's used for simply chasing after Emmys," one executive says. "If the money is spent in a way that supports the creator's vision and makes for better storytelling and better television, great. But sometimes you do see shows that are kind of bloated and overblown."

Not every network has taken to dropping vast sums of money on questionable, barely covered or poorly received shows. And plenty of responsible writers, producers and executives are still making shows on reasonable budgets.

"I always feel like you work best with some kind of restriction somewhere," says Jennie Snyder Urman, showrunner of the CW drama series "Jane the Virgin." "It forces you to be creative. You have to be as efficient as you can."

But Netflix's Holland notes that the pace of change in the industry is accelerating to a point when it's time for everyone to update their preconceptions of acceptable industry practices.

"TV is no longer like we knew it, but we're seeing a lot of really interesting evolution happening," she says. "It's opening the door to more diversity and progress. And yes, there are going to be some failures here and there. But more often than not, the long-term trend is going to [be toward] really exciting changes in the industry and a flowering of creative energy."